

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

**CLIMBING BACK:  
AN ANALYSIS OF THE SUMMARY INSTALMENT  
ORDER:  
THE NEW ZEALAND CONSUMER-DEBTOR  
REPAYMENT PROGRAM**

**A thesis presented in partial  
fulfilment of the requirements  
for the degree  
of Masterate of Applied Economics at  
Massey University**

**KATHRYN REDHEAD**

**1997**

## ABSTRACT

The Summary Instalment Order (SIO) court-administered repayment plan was introduced as an experimental response to the problem of overcommitment. Three decades after its institution, this research forms a profile of its applicants, suggests reasons for their financial difficulty, and conducts the first evaluation of this experimental program.

Comparing the profile of the SIO sample with the general population, SIO applicants are younger, have larger families, are more likely to be separated or divorced, and are more likely to reside in rented accommodation. SIO applicants are also mostly beneficiaries or in unskilled employment. Correspondingly, they have lower income and assets compared to the general population. In addition, they are more committed in terms of indebtedness, though less committed in regard to outgoing.

Overcommitment is the reason for SIO application, and inadequate income, current consumption preference, and the occurrence of an unanticipated event provides explanation for overcommitment. In SIO applications, evidence of inadequate income, current consumption preference, and the occurrence of an unanticipated event suggests these have contributed to the overcommitment of SIO applicants.

The SIO was intended to interrupt an indebted individual's passage to bankruptcy and to provide applicants with rehabilitation and a fresh start. Tracing applicants against the National Insolvency Database, 10.8% of applicants continued to bankruptcy in the 4-6 years following their SIO application. Analysis of the demographic and financial profile of applicants continuing to bankruptcy reveals the SIO may not have failed in any particular way. When analyzing reasons for bankruptcy application, however, SIO failure is more apparent. In addition, the high dropout rate, refile, and evidence of applicants unable to repay their debt within the three year term reinforces SIO failure.

Denial of the SIO, inadequate income, current consumption preference, and the occurrence of an unanticipated event are reasons for SIO failure. Recommendations of: acceptance based upon ability to service debt, improved screening, investigation into

compulsory budgeting assistance, and informing applicants regarding repayment progress and costs associated with bankruptcy application, are among suggestions outlined to combat causes of SIO failure. In addition, increased accessibility to the SIO and continued monitoring of the program's effectiveness is recommended.

## ACKNOWLEDGMENTS

Ironically, in a thesis concerning the dangers of credit, much credit is due.

First, I am greatly indebted to staff of the Department for Courts and Commercial Affairs throughout New Zealand. Without the sacrifice and hard work of these forthcoming individuals, the research could not have been conducted. Special mention is due to David Cole who ran the computer search against the National Insolvency Database, Joanne Pickford for acting as an intermediary between myself, the Official Assignee, and various Commercial Affairs Divisions, and Wayne Goodall for his overall support of the research.

For their contribution of anecdotal evidence, credit is due to New Zealand Federation of Family Budgeting Services Chairperson, Raewyn Nielsen, and to SIO supervisor, Lynne Wyman. Thank you for your assistance.

The financial support of the New Zealand Treasury and the Massey University Alumni Association is also greatly appreciated. In addition, thanks is due to the Department of Applied and International Economics for their contribution of resources required for this research.

I would also like to acknowledge those who assisted in the harrowing task of searching for a thesis topic. Of these, special mention is due to Ross Judge from the New Zealand Treasury.

Credit is due to Professor Larry Rose for his support and continued enthusiasm. The discarding of the typical formal supervisor-student relationship and the positive (?) *net* effect on my written vocabulary was also most appreciated.

On a more personal note, thank you to:

- ⇒ Saint Albans Presbyterian Church, for its unique character and its love, acceptance, and community.
- ⇒ Kerry Betteridge and Jeanette Head, for being catalysts to a year of incredible personal growth.
- ⇒ Tina Heaven, Roqiah Akramy and Carolyn Studman, for the consistency of their friendship. (Long may it continue!!)
- ⇒ Rachel (Roomy) Bate, whose spirit of mischief lingered in her absence in 1997.
- ⇒ Sue Cassells, for her friendship, support, and the (all-to-rare) prayer times.
- ⇒ Nic Gidden, for his encouragement and prayer.
- ⇒ flatmates, both past and present, for their tremendous love and support.
- ⇒ my family (including Hamish McWilliam), ... words do not do you justice ... I love you.
- ⇒ my God, Father of Jesus Christ; it wasn't luck that was on my side...

# TABLE OF CONTENTS

<b>ABSTRACT</b>	<b>i</b>
<b>ACKNOWLEDGEMENTS</b>	<b>iii</b>
<b>TABLE OF FIGURES</b>	<b>3</b>
<b>LIST OF TABLES</b>	<b>4</b>
<b>1. INTRODUCTION</b>	<b>5</b>
1.1 BANKRUPTCY	8
1.2 REPAYMENT PLANS	12
1.2.1 BUDGET ADVICE REPAYMENT PLANS	12
1.2.2 COURT-ADMINISTERED REPAYMENT PLANS	13
1.3 PROPOSED RESEARCH	17
<b>2. LITERATURE REVIEW</b>	<b>19</b>
2.1 PROFILE OF DEBTORS	20
2.2 REASONS FOR PROBLEMATIC DEBT	26
2.2.1 ACCEPTING CREDIT WITHOUT CAPACITY TO REPAY	26
2.2.2 UNEXPECTED CHANGE IN CIRCUMSTANCES	29
2.3 ALTERNATIVES FOR PROBLEM DEBTORS	32
2.3.1 BANKRUPTCY	33
2.3.2 REPAYMENT OF DEBT	34
<b>3. DATA AND METHODS</b>	<b>39</b>
3.1 PERIOD OF ANALYSIS	39
3.2 SAMPLING PROCEEDURE	39
3.3 DATA AND ANALYSIS	41
3.4 LIMITATIONS OF THE DATA	41
<b>4. WHO ARE THE APPLICANTS?</b>	<b>43</b>
4.1 DEMOGRAPHIC PROFILE	43
4.2 FINANCIAL PROFILE	47
4.3 SUMMARY	57
<b>5. REASONS FOR FINANCIAL DIFFICULTY</b>	<b>58</b>
5.1 INADEQUATE INCOME	60
5.2 CURRENT CONSUMPTION PREFERENCE	64
5.3 OCCURRENCE OF AN UNANTICIPATED EVENT	70
5.4 COMBINATION OF REASONS FOR SIO APPLICATION	75

<b>6. EVALUATION OF THE SIO PROGRAM</b>	<b>78</b>
<b>6.1 DETERRENCE OF BANKRUPTCY</b>	<b>78</b>
6.1.1 WHO ARE THE BANKRUPTS?	80
6.1.2 REASON FOR CONTINUATION INTO BANKRUPTCY	90
<b>6.2 PROVISION OF A FRESH START</b>	<b>97</b>
6.2.1 DROP-OUT RATE	98
6.2.2 REFILE	98
6.2.3 PROVISION OF A FRESH START: SUMMARY	101
<b>6.3 EVALUATION OF THE SIO SCHEME: SUMMARY</b>	<b>102</b>
<b>7. POLICY RECOMMENDATIONS</b>	<b>103</b>
<b>7.1 DENIAL OF THE SIO</b>	<b>103</b>
<b>7.2 INADEQUATE INCOME</b>	<b>104</b>
<b>7.3 CURRENT CONSUMPTION PREFERENCE</b>	<b>105</b>
<b>7.4 UNANTICIPATED EVENTS</b>	<b>107</b>
<b>7.5 SUMMARY</b>	<b>108</b>
<b>8. CONCLUSIONS</b>	<b>109</b>
<b>8.1 SUGGESTIONS FOR FUTURE RESEARCH</b>	<b>111</b>
<b>REFERENCES</b>	<b>112</b>
<b>APPENDICES</b>	<b>121</b>
<b>APPENDIX A</b>	<b>122</b>



## TABLE OF FIGURES

FIGURE 1.1: ENQUIRES AT THE NEW ZEALAND FEDERATION OF FAMILY BUDGETING SERVICES	7
FIGURE 1.2: NON-BUSINESS BANKRUPTCIES 1982-1995	7
FIGURE 5.1: CONSUMPTION CHOICE	58
FIGURE: 5.2: CONSUMPTION CHOICE WITH SURVIVAL CONSTRAINTS	60
FIGURE 5.3: INADEQUATE INCOME	61
FIGURE 5.4: CURRENT CONSUMPTION PREFERENCE	65
FIGURE 5.5: UNANTICIPATED EVENT: SHIFT OF THE BUDGET LINE	70
FIGURE 5.6: UNANTICIPATED EVENT: SHIFT OF THE SURVIVAL REQUIREMENT LINE	71
FIGURE 6.1: REPAYMENT PLAN	90

## LIST OF TABLES

TABLE 4.1: GENDER OF SIO APPLICANTS	43
TABLE 4.2: AGE DISTRIBUTION	44
TABLE 4.3: EMPLOYMENT STATUS	45
TABLE 4.4: NUMBER OF DEPENDENTS	46
TABLE 4.5: DISTRIBUTION OF DEBTS	48
TABLE 4.6: DISTRIBUTION OF ASSETS FOR SIO SAMPLE	50
TABLE 4.7: SOURCES OF INCOME FOR SIO HOUSEHOLDS	51
TABLE 4.8: AVERAGE INCOME OF SIO HOUSEHOLDS	52
TABLE 4.9: DEBT-INCOME RATIO	54
TABLE 4.10: DISTRIBUTION OF OUTGOING FOR SIO APPLICANTS	55
TABLE 5.1: SELF REPORTED REASONS FOR APPLICATION	72
TABLE 5.2: REASONS FOR FINANCIAL DIFFICULTY	76
TABLE 6.1: UNANTICIPATED EVENTS: AS A PROPORTION OF THOSE REPORTING A REASON FOR APPLICATION	87
TABLE 6.2: REASONS FOR FINANCIAL DIFFICULTY	88